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AICPA *Washington Report*

March 23, 1987, Volume XVI, Issue 4

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DEFENSE CONTRACT AUDIT AGENCY

Authorized staffing at the Defense Contract Audit Agency (DCAA) has been increased by 1,207 positions, with funding for 604 of these positions in Fiscal Year 1987. The staffing increase was authorized by Congress in the Fiscal Year 1987 Defense Appropriations Bill and is intended to reduce the substantial buildup of unaudited incurred costs at Defense contractor locations, the agency stated. As a result of the new positions, the agency said it has stepped up its recruiting efforts at college campuses around the country. The DCAA is advertising for college graduates who have a minimum of 24 semester hours of accounting and well-developed presentation/communication skills, as well as the ability to interface with all levels of management, to assimilate new information rapidly, and to define and resolve problems effectively. For further information contact the DCAA at 1-800-523-2986; in Virginia, call 1-800-223-0265.

GENERAL ACCOUNTING OFFICE

A booklet entitled "Critical Factors in Developing Automated Accounting and Financial Management Systems" has been published by the GAO. According to the agency, the booklet is being published "to describe in plain English some critical aspects of accounting and financial management systems development in order to inform the Congress and others with a stake in improving government management." The agency notes that the publication is not a technical document and that it cannot replace the formal systems methodologies that project managers and systems professionals must use. Under the section entitled "Basic Features," the GAO publication states that accounting and financial management officials should ensure that planned automated systems include essential features such as audit trails, a comprehensive set of automated internal controls, and controls to guarantee the security of equipment, programs, and files. Other sections of the booklet discuss Systems Methodology, Target Dates, Functional Requirements, Documentation, Independent Testing, Management Commitment, Contracting Process and Training. Requests for copies of the booklet should be made to the GAO at 202-275-6241.

SECURITIES AND EXCHANGE COMMISSION

The issue of mandatory peer review will be considered at a 3/26/87 open meeting of the SEC. The Commission has announced that it will consider whether to publish for comment proposed amendments that would require certified financial statements included in Commission filings to have been examined by an independent accountant whose firm has undergone an accounting and auditing practice peer review within the last three years. SEC staff members were directed by Commission Chairman John Shad at a 11/4/86 open meeting to analyze mandatory peer review and report back to the Commission with recommendations. The issue was scheduled for consideration at a 2/5/87 open meeting, but was deferred. At that time, the SEC announced that peer review would be carried out by peer review organizations in the private sector, "which would be required to report to the Commission's Office of the Chief Accountant in regard to instances of accountants who failed to undergo a peer review or failed or refused to correct weaknesses." In these cases, the Commission release stated, "accountants would be barred from signing accountants' reports to be filed with the Commission." Authority to impose such sanctions would remain with the Commission, not with the private-sector peer review organizations, the agency said. The 3/26/87 open meeting will begin at 10 a.m. at the Commission's headquarters building, 450 Fifth Street, N.W., Washington, D.C. in the Commission Meeting Room, Room 1C30. For further information contact John Heyman at the SEC at 202/272-2130.

TREASURY, DEPARTMENT OF

Philip E. Coates, CPA has been appointed Director of the IRS Honolulu District, which is responsible for tax matters in Hawaii. In Fiscal 1986 individual, corporate and other taxpayers in the Honolulu District filed 860,000 returns representing \$2.3 billion in Federal taxes. Mr. Coates began his career with the IRS in 1952. He served two years in El Salvador as an advisor under the IRS foreign tax assistance program and in 1975 became deputy assistant commissioner for compliance in the IRS National Office in Washington, D.C. Two years later, Mr. Coates was made regional commissioner for the IRS North-Atlantic Region, headquartered in New York City. Mr. Coates returned to Washington in 1980 as assistant commissioner for compliance. In 1982 he was named regional commissioner for the IRS Central Region and, in 1983, Mr. Coates was appointed associate commissioner for policy and management at the IRS National Office. He was next appointed associate commissioner for operations, the position he held at the time of his appointment as director of the IRS Honolulu District. Mr. Coates has been a member of the AICPA since 1980.

Taxpayers will be allowed to change elections relating to the possessions tax credit according to an IRS advance notice 87-27. Taxpayers not including intangible income of possessions firms in the income of shareholders must elect one of two accounting methods — the cost-sharing method or the profit-split method — for computing the intangible property income. Since the Tax Reform Act of 1986 altered the computations made for purposes of the cost-sharing election, some taxpayers who have already elected this method may now prefer the profit-split method. Thus, "regardless of any change of election made pursuant to the final regulations, a possessions corporation, without seeking consent of the IRS Commissioner, may change its election under Code Section 936(h) from the cost-sharing method to the profit-split method, or from the cost-sharing method to the method permitted under Section 936(h)(1) through (h)(4)," the notice said. According to the IRS, the change must be made on the possessions corporation's tax return for its first tax year beginning after 12/31/86. The return must be timely filed, but extensions of the due date of the return will be recognized for purposes of determining whether it is timely filed. The change will apply for that tax year and for all subsequent years, the notice added. Notice 87-27 is scheduled for publication in Internal Revenue Bulletin No. 1987-12 on 3/23/87.

SPECIAL: PROPOSED DOD CONTRACTOR PROFIT POLICY SUBJECT OF HOUSE HEARING

GAO's recent proposal calling for a defense contractor profit reporting program was the subject of a hearing held 3/18/87 by the House Legislation and National Security Subcommittee. GAO Comptroller General Charles Bowsher told the Subcommittee, chaired by Rep. Jack Brooks (D-TX), that the Office of Federal Procurement Policy (OFPP) should administer a "continuous program to study the profitability of government contractors" to "systematically, objectively, and consistently determine if the goals of government policies are being achieved." Current Defense Department profitability studies performed on an "ad hoc" basis are not adequate, he said. The GAO's proposal was previously published in an exposure draft (GAO/NSAID-87-46) in November 1986 (see the 12/8/86 Wash. Rpt.). The agency is currently reviewing comments on the draft and expects to issue a final proposal shortly, Mr. Bowsher said. Responding to criticisms about the potential cost and size of such a program, Mr. Bowsher said that the profit reporting program could be administered by a small number of staff, and would not be excessively expensive. A witness for the Department of Defense testified that the GAO proposal "needs more work before it is submitted to Congress." Deputy Assistant Secretary of Defense for Procurement Eleanor Spector said that the Department of Defense has a long history of performing profit studies using much the same information as recommended by the GAO. "There needs to be a more in-

depth analysis of the associated costs and benefits" of the GAO proposal, Ms. Spector stated, and "an examination of the benefits to be gained over management information systems that already exist." Representatives of the U.S. Chamber of Commerce, Aerospace Industries Association, and Financial Executives Institute also raised concerns about the proposal.

SPECIAL: SENATE SUBCOMMITTEE SCHEDULES HEARING ON "TAXPAYERS' BILL OF RIGHTS" LEGISLATION

Legislation entitled the "Taxpayers' Bill of Rights Act," S. 579, will be the subject of a 4/10/87 hearing by the Senate Finance Subcommittee on Private Retirement Plans and Oversight of the Internal Revenue Service. S. 579, introduced by Sen. Harry Reid (D-NV), contains the following provisions: 1) Allows taxpayers to initiate civil action against IRS employees who violate rights of taxpayers guaranteed by the Constitution and laws; 2) Limits class audits to ensure that members of the trade, business or profession audit groups have been provided the opportunity to respond and amend their returns to conformance standards; 3) Places the burden of proof in all administrative and judicial proceedings between the IRS and the taxpayer with the IRS, although the taxpayer may be required to submit information to support his position, if he is the sole possessor of the information; 4) Prohibits the IRS from abrogating installment payment agreements unless the taxpayer initially provided inaccurate or incomplete information; 5) Increases the time available to the IRS and U.S. district courts to review jeopardy assessments; and 6) Requires the General Accounting Office to make annual audits of the IRS in several specific areas affecting the administration of the tax laws. The hearing is scheduled for 10 a.m. on 4/10/87 in Room 215 of the Dirksen Senate Office Building. The Subcommittee has announced that testimony will be heard from invited witnesses only, but that written statements are welcome. Written statements must be submitted by 5/8/87. For further information contact the Finance Committee at 202-224-4515.

For further information contact Shirley Hodgson or Joseph Petito at 202/872-8190.

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